

## Message Text

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ACTION EB-08

INFO OCT-01 EUR-12 IO-13 ISO-00 AID-05 CIAE-00 COME-00  
FRB-01 INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06  
SP-02 LAB-04 SIL-01 OMB-01 NSC-05 SS-15 STR-04 CEA-01  
/105 W

-----160733Z 044154 /23-11

R 151456Z MAR 77

FM AMEMBASSY BERN

TO SECSTATE WASHDC 4057

INFO AMEMBASSY BONN

USMISSION EC BRUSSELS

USMISSION GENEVA

USDEL MTN GENEVA

AMEMBASSY LONDON

AMEMBASSY PARIS

AMEMBASSY ROME

USMISSION OECD PARIS

AMCONSUL ZURICH

UNCLAS BERN 1091

PASS TREASURY AND FRB

EO 11652: NA

TAGS: EFIN ECON SZ

SUBJ: SWISS FINANCIAL REPORT: WEEK OF MAR 6-12

1. SUMMARY: DOLLAR RATE AGAINST SWISS FRANC ROSE FROM SF 2.54  
TO SF 2.55. SWISS EXPECT FURTHER PHASES OF FRANC WEAKNESS  
BUT BELIEVE FRANC WILL REMAIN STRONG OVER LONG TERM. GOLD  
PRICE DECLINED TO 146. SWISS BELIVE GOLD WILL STABILIZE AT  
150 BEFORE ANOTHER TREND DEVELOPS AND PREDICT MORE STABLE MARKET  
THAN IN 1976. MONEY MARKET LIQUIDITY WAS TIGHT AND INTEREST  
RATES FOR TIME DEPOSITS ROSE. BANKS HAVE AGREED TO NEW LOAN  
CONDITIONS TO FORESTALL EARLY LOAN REPAYMENTS TO REFINANCE  
AT LOWER INTEREST RATES. SN HAS RAISED CEILING ON SWISS FRANC  
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ACCOUNTS HELD BY FOREIGN BANKS TO SF 250,000. END SUMMARY.

2. FOREIGN EXCHANGE AND GOLD: DOLLAR RATE AGAINST SWISS FRANC  
ROSE FROM SF 2.54. MONDAY TO SF 2.56 AT MID-WEEK BEFORE CLOSING  
SF 2.55 FRIDAY. RATE FOR DM 100 RAMAINED SF 106 WITH MINOR  
UPWARD FLUCTUATIONS. EXCHANGE DEALERS BELIEVE FURTHER PHASES  
OF SWISS FRANC WEAKNESS ARE POSSIBLE BUT EXPECT FRANC TO

REMAIN STRONG OVER LONGER TERM. CURRENT FRANC WEAKNESS ATTRIBUTED TO LEADS AND LAGS IN FOREIGN TRADE, FACT THAT FRANC WAS OVERBOUGHT IN JAN, HIGH LEVEL OF CAPITAL EXPORTS AND LARGE INVESTOR DEMAND FOR FOREIGN CURRENCY SECURITIES IN VIEW OF LOW LONG TERM SWISS INTEREST RATES. GOLD PRICE DECLINED FROM 148 HIGH TO 146. DEALERS ATTRIBUTED DECLINE TO PROFIT TAKING BUT INDUSTRIAL PURCHASES SLOWED AS PRODUCERS INCREASED SALES. RATES FOL:

	3/7 (OPEN)	3/11 (CLOSE)
SPOT DOLLAR	2.5480	2.5545
FORWARD DISCOUNTS (PCT P A)		
1 MONTH	2.21	2.16
2 MONTHS	2.24	2.16
3 MONTHS	2.35	2.22
6 MONTHS	2.55	2.33
12 MONTHS	2.82	2.76
SF/DM	106.63	106.62
GOLD	147.75	146

3. GOLD PRICE: ZURICH GOLD PRICE HAS RISEN 14 PCT SINCE END JAN, 43 PCT SINCE AUG 1976 AND IS EVEN 5 PCT BELOW END 1975. DEALERS BELIEVE PRICE WILL STABILIZE ABOUT 150 BEFORE ANOTHER TREND DEVELOPS. THEY PREDICTED MORE STABLE MARKET IN 1977 AND FURTHER PRICE RISE IF TREND CONTINUES. SWISS WONDERED IF US TREASURY MIGHT SELL GOLD BECAUSE IMF SALES HAVE FAILED TO DEMONETIZE IT. BESIDES RELATIVELY STRONG INDUSTRIAL DEMAND, EUROPEAN INVESTORS HAVE TURNED TO GOLD BECAUSE OF FOREIGN EXCHANGE FLUCTUATIONS AND US BUYERS ARE BELIEVED HEDGING UNCLASSIFIED

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AGAINST INFLATION BROUGHT BY COLD WEATHER AND DROUGHT. NEAR AND FAR EAST DEMAND REMAINS STRONG WITH INCREASED NEAR EAST USE FOR JEWELRY. SOVIET UNION HAS SOLD VERY LITTLE GOLD IN RECENT WEEKS. SWISS BELIEVE SOVIETS CONSERVING GOLD TO HELP GUARANTEE WESTERN LOANS AND, THEREFORE, DISCOUNT REPORTS OF POSSIBLE CONVERTIBLE ROUBLE BACKED BY GOLD.

4. CAPITAL AND MONEY MARKETS. MONEY MARKET WAS RELATIVELY TIGHT. CALL MONEY RATE ROSE TO 3 PCT ON MAR 11. LIQUIDITY, MEASURED BY GIRO CLEARING ACCOUNTS AT SNB, FELL FROM SF 6,971 MIL TO SF 5,803 MIL AS OF MAR 7. MONETARY BASE HAS BEEN AFFECTED BY SNB HOLDING BACK ON DOLLAR PURCHASES WHILE MEETING FOREIGN EXCHANGE DEMAND FOR CAPITAL EXPORT CONVERSIONS. HOWEVER, SNB CONCLUDED NEW SHORT TERM SWAPS TO HELP MAINTAIN MARKET LIQUIDITY, INCREASING SNB'S FOREIGN EXCHANGE HOLDINGS BY SF 149.5 MIL AS OF MAR 7. BECAUSE OF HIGHER DOLLAR RATES, BANKERS RECOMMENDED SNB MAINTAIN MINIMUM MARKET LIQUIDITY BY EXPANDING CASH IN CIRCULATION TO REPLACE FUNDS WITHDRAWN FROM MARKET. STOCK PRICES SHOWED MIXED RESULTS: SKA INDEX (1959

EQUALS 100) SLIPPED TO 223.5 MAR 10. KAISER ALUMINUM AND  
CHEMICAL INTERNATIONAL N.V., CURACAO WILL BORROW SF 60 MIL  
AT 5.5 PCT INTEREST FOR 15 YEARS ON SWISS MARKET. AVERAGE  
YIELD CONFEDERATION BONDS UP SLIGHTLY TO 3.99. THOUGH DEMAND FOR  
CREDIT REMAINS SLACK, FORU LARGEST SWISS BANKS MAR 9 RAISED  
INTEREST RATES ON TIME DEPOSITS:

DURATION	OLD RATE	NEW RATE
3 - 5 MONTHS	1.25	1.75
6 - 11 MONTHS	1.5	2
12 MONTHS	2	2.25

5. NEW LOAN CONDITIONS: DECLINING LOAN INTEREST RATES HAVE  
STIMULATED INTEREST IN ADVANTAGES OF EARLY LOAN REPAYMENT TO  
REFINANCE OLDER LOANS AT LOWER RATES. CONSORTIUM OF UNDER-  
WRITING BANKS AND CANTONAL BANKS HAVE ADOPTED FOLLOWING GUIDE-  
LINES TO MAINTAIN MARKET ORDER AND BALANCE CREDITOR/BORROWER  
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INTERESTS:

(A) UNDERTAKE TO OBTAIN FIXED URATION TO LOAN AGREEMENTS.  
(B) PROVIDE FOR EARLY LOAN REPAYMENT ONLY AFTER TWO-THIRDS  
OF DURATION HAS ELAPSED AS CURRENTLY PRACTICED.  
(C) LIMIT OF 2 YEARS DURING WHICH EARLY REPAYMENT CAN BE  
AMDE WITHOUT PENALTY.  
(D) AGREE ON INITIAL PREMIUM OF 0.5 PCT PER YEAR IF  
DIFFERENCE BETWEEN SHORTEST AND LONGEST DURATION OF LOAN IS  
MORE THAN 2 YEARS.

6. FOREIGN BANKS: SNB HAS DECIDED SWISS FRANC ACCOUNTS HELD  
BY FOREIGN BANKS WILL BE FREE FROM NEGATIVE INTEREST RATE FOR  
AMOUNTS UP TO SF 250,000 AFTER APR 1, 1977. SNB WILL  
APPROVE HIGHER LIMITS IF SUBSTANTIAL INCREASE IN COMMERCIAL  
TRANSACTIONS SINCE OCT 1974 CAN BE PROVEN. FOREIGN BANKS  
WERE LIMITED TO BALANCE OF SF 150,000 ON OCT 31, 1974. DAVIS

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